

World Pork Trade Overview

Rising Global Demand Fuels Growth in Pork Production and Trade.

World Summary: Despite increasing prices, world demand for pork continues to grow. During the first half of 2004, average wholesale pork prices in the United States, Europe and Japan rose by more than 15 percent. Retail prices have remained relatively more stable, helping to sustain world consumption at record levels. As beef and poultry markets gradually recover from the disruptions of BSE and avian influenza, growth in world pork consumption should continue, albeit at a slower rate. Around the world, pork remains the most widely consumed meat protein, even though poultry is catching up. Rising incomes, particularly in China, seem to be fueling growth in world demand. In the United States, the popularity of low carbohydrate / high protein diets also appears to be energizing consumer interest in pork. With growing worldwide demand, pork production is working to keep pace. China, the EU, Canada, the United States and Brazil, which according to FAO account for an estimated 80 percent of world production, will collectively produce more than 80 million tons of pork in 2004. Production for the selected reporting countries is expected to continue growing, increasing by about 1 percent in 2005.

The expansion of world consumption and production underscores the increasing importance of trade, even where countries have the capacity to be self-sufficient. Regional differences in the consumer preference for particular meat cuts create opportunities for trade. Meat cuts can potentially be marketed wherever they receive the highest price. Trade in meat cuts is in fact growing relatively faster than trade in whole or half carcasses. Over the last two years, exports of whole and half carcasses from major world suppliers have grown 5 percent, while trade in pork meat cuts has grown by almost 8 percent. Still, as more high-value meat cuts are traded internationally, the profit potential is often mitigated by a number of factors. In many developed countries, there is an increasing cost with conforming to more stringent environmental and animal welfare regulations. As yet, there is no clear evidence to suggest that consumers are willing to pay for this added cost. Trade is also quite vulnerable to the many complexities that determine market access. Unlike domestic markets, international trading arrangements can sometimes change dramatically overnight. Notwithstanding these many uncertainties, major pork producers continue to aggressively vie for very lucrative international market shares. Pork exports by the major suppliers, which are projected to reach 4.2 million tons in 2004, are forecast to grow by 1 percent in 2005.

Key Exporters:

- **United States:** Strong domestic and international demand is expected to continue sustaining hog prices in 2004 and 2005. Pork production in 2005 will reach 9.5 million tons, an increase of 2 percent from 2004. Live hog imports from Canada, which have helped maintain U.S. pork production at record levels, are currently subject of anti-dumping and countervailing duty investigations. The current forecast however, does not take into account the implications of the recent preliminary

determination on the anti-dumping case. The U.S. Department of Commerce is expected to make a final determination on both investigations by March 7, 2005. In any case, U.S. pork production, consumption, and exports continue to grow. The top three markets, Japan, Mexico, and Canada, still account for about 80 percent of U.S. exports. Demand for U.S. pork is expected to remain strong in 2005, especially as the relative weakness of the U.S. dollar continues to further enhance the competitiveness of U.S. pork.

- **Canada:** Canadian pork production is forecast to grow by less than 2 percent in 2005, to 1.9 million tons. Strong prices for market hogs and record exports of live hogs to the United States are expected to encourage an expansion of the breeding herd. Canadian exports of feeder and slaughter pigs to the United States have been very strong, reaching over 7.4 million head in 2003, an increase of 30 percent from 2002. Live hog exports are currently forecast to reach new records in 2004 and 2005. On October 15, 2004, the U.S. Department of Commerce announced a preliminary anti-dumping determination on U.S. imports of live swine from Canada, setting preliminary dumping margins ranging from *de minimis* to 15.01 percent. Although the investigation is continuing, a duty on hogs could encourage an expansion of Canadian slaughter capacity, the current dumping margins may end up favoring lower value exports (i.e. feeder pigs). Feeder pigs already account for about 67 percent of total live hog exports to the United States. Canadian hog producers are likely to shoulder most of the added cost of shipping hogs to the United States.

Canadian domestic pork consumption is gradually recovering from the disruptions caused by the Canadian BSE crisis of May 2003. At the time, consumption fell by almost 10 percent, as Canadian consumers increased purchases of domestically produced beef in response to lower beef prices. Pork consumption is expected to increase 5 percent in 2004, and by more than 1 percent in 2005. Bilateral pork trade between Canada and the United States continues to grow significantly. The United States is Canada's largest export market, accounting for over 56 percent of total pork exports in 2003. Although pork exports to the United States have decreased by almost 9 percent during the first seven months of 2004, recent exports to Japan and Mexico have been particularly strong. Pork exports are expected to increase by 2 percent in 2005.

- **Brazil:** Brazilian pork production is forecast to increase by about 2 percent in 2005. Lower feed costs should benefit hog producers. Hog production, particularly in the center-west region around the State of Mato Grosso, is growing significantly because of state, federal, and foreign investment. Increased hog production in Mato Grosso appears to be offsetting small declines in production in the traditional producing areas of the South. Domestic consumption is expected to increase 2 percent in 2005, driven by improving economic conditions and higher incomes. The pork industry recently launched a promotional campaign designed to encourage greater domestic consumption of fresh pork. Almost 70 percent of Brazilian pork consumption is still in processed form. Currently, Brazil exports almost one-quarter of its domestic production. While heavy reliance on the Russian market continues to periodically

generate considerable uncertainty, Brazilian pork exporters are working toward greater market diversification. During the first half of 2004, exports to markets such as South Africa, Singapore, Ukraine, Bulgaria, Armenia, and Lithuania, have increased. For more information on Brazil, please refer to the following report: <http://www.fas.usda.gov/dlp/IATRs/2004/Brazilmeat.html>

- **European Union:** Lower beginning inventories and reduced sow numbers continue to affect the 2004 outlook on production in both the EU-15 and in the new EU member states. Pig production in the EU-15 is expected to decline slightly from 2003, as improving productivity appears to be offsetting rising production costs (For additional information see tables on pages 32 and 33). Producer prices have generally been rising due to tighter supplies, and there is some evidence of strengthening demand, particularly in Germany. French producers, still recovering from the effects of the 2003 drought, will receive an \$18 million aid package for market restructuring, research, and to promote quality and branded products. In January 2004, concerns over rising feed prices, as well as the relative strength of the Euro vis-à-vis the U.S. dollar, brought the EU Commission to announce that it would reintroduce export refunds for pig carcasses and cuts. The decision, which was later rescinded in March, would not in any case have applied to the 10 accession countries, which entered the EU on May 1, 2004. With the accession, the EU Commission estimates that over the next six years, EU-25 pork production could increase by as much as 30 percent from the 2003 EU-15 production level. However, in 2004, pork production in the new member states is expected to decline nearly 5 percent, mainly as result of reduced slaughter in Poland, Hungary and the Czech Republic. While Poland's pig inventories are expected to gradually recover, 2005 pork production in the new EU member states should remain at the 2004 level. Nevertheless, pork consumption in many of the accession countries should remain strong, particularly as incomes increase. EU-25 external trade is forecast to decrease in 2004 and 2005, mainly as a result of the Russian tariff rate quota. Although the relative importance of intra-trade with the new member states is certain to increase, extra EU-25 exports, particularly those originating from countries like Denmark and the Netherlands will still continue to grow.
- **China:** Avian influenza has had a significant impact on Chinese pork production and consumption. Lingering concerns over the bird flu epidemic appears to be encouraging pork production in response to rising consumer demand. In 2005, Chinese pork production is expected to reach 47.5 million tons, a slight increase from 2004. Production costs are quickly rising. Despite prices currently reaching historically high levels, rising per capita income should help fuel Chinese consumption in 2005. Pork exports are also expected to grow significantly in 2005. While the Russian quota could limit the export potential from northern provinces like Heilongjiang, China is expected to remain very competitive in Asian markets like Hong Kong, Japan and North Korea.

Key Importers:

- **United States:** In 2003, the United States imported a record 538,000 tons of pork, an 11 percent increase from 2002. However, pork imports for 2004 and 2005 are expected to decrease, primarily due to the relative weakness of the U.S. dollar.
- **Japan:** Japan remains the world's largest pork importer. After imports declined by almost 3 percent in 2003, Japanese imports are expected to increase 8 percent in 2004 and 2 percent in 2005. Rising inventories of frozen pork, particularly used for further processing, can periodically weaken import demand. At the same time, importing pork to build inventory often ends up triggering the pork safeguard. In 2003, Japanese domestic production reversed earlier trends by growing 2 percent over the previous year. Domestic production is expected to increase by about 1 percent in 2004, and should remain stable in 2005. Strong consumer demand and limited availability of beef and poultry are expected to push 2004 pork imports to 1.2 million tons, a new record. The safeguard duty on pork imports, which raises the gate price for carcass imports from 409 Yen to 510 Yen per kg (\$1.54 per lb to \$1.92 per lb), and the gate price for pork cuts from 546 to 681 Yen per kg (\$2.05 per lb to \$2.56 per lb), will expire on March 31, 2005. This special safeguard provision is designed to trigger when quarterly imports exceed the average of the three previous corresponding quarters by 19 percent or more. It is unlikely that a surge in imports will again trigger the safeguard in 2005. For more information on the Japanese pork safeguard, please refer to the following report:
<http://www.fas.usda.gov/dlp/IATRs/2004/JapanPorkSafeGuard.html>
- **Hong Kong:** With disruptions in beef and poultry supplies, Hong Kong's pork trade remains strong. More restaurants seem to be promoting pork and lamb. Macroeconomic conditions are generally improving, and the tourist trade, particularly from mainland China, appears to be picking up. Imports are forecast to grow by about 5 percent in 2004 and nearly 6 percent in 2005. Hong Kong meat traders have noted that China is becoming more aggressive in trying to tackle the smuggling problem. Also, there seems to be a scarcity of import permits, given the growth in consumer demand.
- **Mexico:** Mexican pork production is expected to reach almost 1.2 million tons in 2005, an increase of about 2 percent from the projected 2004 level. Live hog imports, which fell by more than 50 percent in 2003, are forecast to increase in 2004 and 2005. The Mexican pig crop and slaughter are also expected to rise to meet growing consumer demand. Even as Mexican beef imports from the United States gradually resume, pork consumption is expected to remain strong, with annual growth of about 6 percent in 2004, and 3 percent in 2005. With strengthening prices, the profitability and productivity of the Mexican pork sector continues to improve. Nevertheless, growth in domestic consumption continues to outpace domestic supply. Mexico's imports are therefore expected to grow by more than 6 percent in 2005. The United States, which accounts for about 80 percent of Mexican imports, is expected to

continue to be the major pork supplier. At this time, the Government of Mexico is still pursuing a self-initiated anti-dumping investigation on imports of U.S. ham.

- **Russia:** In 2005, domestic pork production is expected to grow by almost 3 percent, as feed supplies and prices remain favorable. The tariff rate quota (TRQ) system, designed to facilitate the recovery of Russian meat production, sets country specific quotas on imports under HS code 0203 (fresh and frozen pork). The 2004 TRQ parameters, announced on November 29, 2003, set the following country limits: the European Union (including the 10 accession countries) – 227,300 tons; the United States – 42,200 tons; Paraguay – 1,000 tons; all other countries (except CIS countries) compete for the remaining 179,500 tons. The tariff is set at 15 percent, but no less than €0.25 /kg (14 ¢ / lb) for volumes within the TRQ. Above that level, the tariff becomes 80 percent, but no less than €1.06 /kg (60 ¢ / lb). The TRQ has contributed to a general increase in meat prices. Furthermore, administrative difficulties in the distribution of TRQ licenses suggest that the 2004 annual quotas are unlikely to be completely filled.

